

Meeting of the Federal Open Market Committee

October 21, 1980

Minutes of Actions

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Tuesday, October 21, 1980, at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman  
Mr. Gramley  
Mr. Guffey  
Mr. Morris  
Mr. Partee  
Mr. Rice  
Mr. Roos  
Mr. Schultz  
Mr. Solomon  
Mrs. Teeters  
Mr. Wallich  
Mr. Winn

Messrs. Balles, Baughman, Mayo, and Timlen, Alternate Members of the Federal Open Market Committee

Messrs. Black, Corrigan, and Ford, Presidents of the Federal Reserve Banks of Richmond, Minneapolis, and Atlanta, respectively

Mr. Altmann, Secretary  
Mr. Bernard, Assistant Secretary  
Mr. Petersen, General Counsel  
Mr. Oltman, Deputy General Counsel  
Mr. Mannion, Assistant General Counsel  
Mr. Axilrod, Economist  
Mr. Holmes, Adviser for Market Operations

Messrs. Balbach, J. Davis, R. Davis, T. Davis, Eisenmenger, Ettin, Henry, Keir, Truman, and Zeisel, Associate Economists

Mr. Pardee, Manager for Foreign Operations, System Open Market Account

Mr. Sternlight, Manager for Domestic Operations, System Open Market Account

Mr. Coyne, Assistant to the Board of Governors  
Mr. Prell, Associate Director, Division of Research  
and Statistics, Board of Governors  
Mr. Smith 1/, Assistant Director, Division of Inter-  
national Finance, Board of Governors  
Mr. Beck, Senior Economist, Banking Section, Division  
of Research and Statistics, Board of Governors  
Mr. Morton 1/, Economist, Financial Markets Section,  
Division of International Finance, Board of  
Governors  
Mrs. Steele, Economist, Open Market Secretariat,  
Board of Governors  
Mrs. Deck, Staff Assistant, Open Market Secretariat,  
Board of Governors

Mr. Smoot, First Vice President, Federal Reserve  
Bank of Philadelphia

Messrs. Brandt, Burns, Danforth, Parthemos, and  
Scheld, Senior Vice Presidents, Federal Reserve  
Banks of Atlanta, Dallas, Minneapolis, Richmond,  
and Chicago, respectively

Messrs. Bisignano, Mullineaux and Sloan, Vice  
Presidents, Federal Reserve Banks of San  
Francisco, Philadelphia, and Chicago, respec-  
tively

Mr. Levin, Manager, Securities Department, Federal  
Reserve Bank of New York

By unanimous vote, the minutes of actions taken at the meeting  
of the Federal Open Market Committee held on September 16, 1980, were  
approved.

By unanimous vote, System open market transactions in foreign  
currencies during the period September 16 through October 20, 1980,  
were ratified.

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1/ Left the meeting prior to the action to amend paragraph 1(a) of the  
Authorization for Domestic Open Market Operations.

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By unanimous vote, System open market transactions in Government securities, agency obligations, and bankers acceptances during the period September 16 through October 20, 1980, were ratified.

By unanimous vote, paragraph 1(a) of the Authorization for Domestic Open Market Operations was amended to raise to \$4 billion the dollar limit on intermeeting changes in System Account holdings of U. S. Government and Federal agency securities, effective immediately, for the period through the close of business on November 18, 1980.

With Messrs. Morris, Roos, Wallich, and Winn dissenting, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Account in accordance with the following domestic policy directive:

The information reviewed at this meeting suggests that real GNP increased somewhat in the third quarter following the sharp contraction in the second quarter, while prices on the average continued to rise rapidly. The recovery in retail sales and housing starts that began in June continued during the third quarter. Industrial production and nonfarm payroll employment expanded in September for the second consecutive month, and the unemployment rate edged down from 7.6 to 7.5 percent. The rise in the index of average hourly earnings moderated in the third quarter, but the rise over the first nine months of the year was about as rapid as in 1979.

The weighted average value of the dollar in exchange markets on balance has risen somewhat over the past month. The U.S. trade deficit in August remained well below the monthly average in the second quarter.

M-1A and M-1B continued to grow rapidly in September, although not so rapidly as in August, while growth in M-2 moderated further. From the fourth quarter of 1979 to September, growth of M-1A was slightly above the midpoint of the range set by the Committee for growth over the year ending in the fourth quarter of 1980, while growth of M-1B and M-2 was somewhat above the upper limits of their ranges. Expansion in commercial bank credit was relatively rapid in both August and

September. On balance short-term market interest rates have risen considerably further since mid-September while long-term rates have changed little; average rates on new home mortgage commitments have continued upward. An increase in Federal Reserve discount rates from 10 to 11 percent was announced on September 25.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation, encourage economic recovery, and contribute to a sustainable pattern of international transactions. At its meeting in July, the Committee agreed that these objectives would be furthered by growth of M-1A, M-1B, M-2, and M-3 from the fourth quarter of 1979 to the fourth quarter of 1980 within ranges of  $3\frac{1}{2}$  to 6 percent, 4 to  $6\frac{1}{2}$  percent, 6 to 9 percent, and  $6\frac{1}{2}$  to  $9\frac{1}{2}$  percent respectively. The associated range for bank credit was 6 to 9 percent. For the period from the fourth quarter of 1980 to the fourth quarter of 1981, the Committee looked toward a reduction in the ranges for growth of M-1A, M-1B, and M-2 on the order of  $\frac{1}{2}$  percentage point from the ranges adopted for 1980, abstracting from institutional influences affecting the behavior of the aggregates. These ranges will be reconsidered as conditions warrant.

In the short run, the Committee seeks behavior of reserve aggregates consistent with growth of M-1A, M-1B, and M-2 over the September to December period at annual rates of about  $2\frac{1}{2}$  percent, 5 percent, and  $7\frac{1}{4}$  percent respectively, or somewhat less, provided that in the period before the next regular meeting the weekly average federal funds rate remains within a range of 9 to 15 percent.

If it appears during the period before the next meeting that the constraint on the federal funds rate is inconsistent with the objective for the expansion of reserves, the Manager for Domestic Operations is promptly to notify the Chairman, who will then decide whether the situation calls for supplementary instructions from the Committee.

It was agreed that the next meeting of the Committee would be held on Tuesday, November 18, 1980, beginning at 9:30 a.m.

The meeting adjourned.

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Secretary